

ADJUSTMENT BUDGET 2013/2014 to 2015/2016



Munisipaliteit

UMJINDI

Municipality

MP 323

UMJINDI LOCAL MUNICIPALITY

ADJUSTED

2013/14 MEDIUM-TERM REVENUE AND

EXPENDITURE FRAMEWORK (MTREF)

EXECUTIVE SUMMARY

Core Business Area	Financial Services Directorate
Operational Area	Budget & Treasury Section

Owner: Umjindi Budget & Treasury Section

Client: Umjindi Local Municipality

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1. PURPOSE

- 1.1 The purpose of the report is to table the Adjusted 2013/2014 Medium-Term Revenue and Expenditure Framework (MTREF) before Council in terms of Section 28 of the Local Government: Municipal Finance Management Act (MFMA), 2003 Act 56 of 2003, which states that the municipal council may revise an approved annual budget through an adjustments budget.

2. BACKGROUND

- 2.1 The 2013/14 MTREF will be remembered for the tremendous challenges that the Municipality encountered during the compilation of the 2012/2013 MTREF due cash flow constraints and competing IDP priorities as well as institutional needs for betterment of working conditions for staff.
- 2.2 The 2013/14 Adjustment Budget in January 2014 directly informed the compilation of the draft 2014/15 MTREF, aligned to the spirit of the MFMA, and more specifically the principle of multi-year budgeting.
- 2.3 The ADJUSTED 2013/14 MTREF is now being tabled for consideration and adoption according to section 28 of MFMA (Municipal Finance Management Act, 56 of 2003).
- 2.8 Section 22 (b), 23(3) and 24(3) of the MFMA will apply and be submitted to the National Treasury and the relevant Provincial Treasury in printed and electronic formats.

3. BUDGET ASSUMPTIONS

- 3.1 The adjustment Budget are prepared in an environment of uncertainty and assumptions need to be made about internal and external factors that could impact on the budget during the course of the financial year.
- 3.2 In compiling the 2013/14 MTREF, the following issues and assumptions that already started during the very difficult 2012/2013 MTREF process and adjustment budget were taken into consideration as the economic meltdown continued with ripple effects in 2013 and still have a major effect on the budget planning process and outcomes for the 2013/2014 MTREF and Adjustment budget for the 2013/2014 financial year:
 - 3.2.1 Economic climate;
 - 3.2.2 Poverty levels;
 - 3.2.3 Inflation; and
 - 3.2.4 Service delivery cost increases
 - 3.2.5 Increase of staff costs and demands
- 3.3 Tariff and Property Rate increases should be affordable and on line with the CPIX, however taking into account the need to address infrastructure requirements, as well as adjusting some tariff to make the costs of rendering the service to breakeven, therefore some tariff are more than the CPIX.
- 3.4 No budget will be allocated for capital projects unless the request is included in the IDP.
- 3.5 The disposal / selling of municipal vacant land (Stands to be sold) will be included as anticipated revenue to be realized and form part of the budget. The council will have to provide in future for more stands to be made available to middle and high income groups that can afford payment for services and which will expand the revenue base of the municipality.
- 3.6 Operational costs will be maintained at current levels or reduced as cost curtailment measures.

- 3.7 Budget allocations for externally funded projects will be maintained at approved or gazetted (Grants: Operating and Capital) levels be taken in consideration
- 3.8 Cash flow projections should be strictly maintained to ensure the municipality's ability to meet its obligations as contemplated in the budget.
- 3.9 Most general expenditure budget items and the repairs and maintenance budgets have been reviewed, increased and or decreased in line with the actual expenditure in the first 6 month of the financial year.
- 3.10 Employees salaries and contributions have been increased in line with the Bargaining councils 3 year agreement with unions signed during the 2012/13 financial year and a provisional increase of 6.8% is budgeted for. The bench marketing on the salary thresholds do have an influence of approximately R 3 500 000.00 on the total salary budget for the financial year.
- 3.12 Increase for Councillors allowances has been allowed for in the 2013/14 MTREF in line with the Remuneration of Public Office Bearers Act (No. 20 of 1998) and a provisional increase of 6% is budgeted for
- 3.13 The MTREF makes provision for ±2500 indigent household to be registered, approved and receiving free basic services in 2013/14.
- 3.14 This MTREF and adjustment budget does not make provision for Council to enter into any new external loans for capital funding purposes.
- 3.15 Provision for non-receipt of billed income has been made in the budget (this is called the working capital budget). It is assumed that of the total income budget 88% will be received as actual income. This has been maintained in the compilation of the adjustment budget. The Collection rate currently varies between 84% and 88%.
- 3.16 The Equitable Share, Finance Management Grant, Municipal System Improvement Grant, National Electrification Programme Grant, Water Infrastructure Grant and EPWP Incentive Grant where determined in line with the 2013/14 Division of Revenue Bill (*Bill published in Government Gazette No. 36180 of 22 February 2013*).

4. BUDGET HIGHLIGHTS

- 4.1 The amount of R 3,632 million that has been budgeted for as the indigent household subsidization on municipal services excluding water is maintained.
- 4.2 The amount of R3, 773 million that has been budgeted for as free basic services to other residents (6kl Water to all residential consumers) has been maintained.
- 4.3 An amount of R 65 748 million has been budgeted for infrastructure and institutional development (MIG=R28, 052 Million and INEP=R18, 000 million plus Equitable share counter funding of R2, 500 million for electricity programmes and R17, 701 for water infrastructure).
- 4.4 The envisaged sources of funding for the Capital Budget must be properly considered and the Council is satisfied that this funding is available and has not been committed for other purposes.

5. OPERATING BUDGET

- 5.1 The following table represents the 2013/14 Adjustments as informed by the 2013/14 MTREF, Integrated Development Plan and various other best practice methodologies e.g. Balanced budget constraint, affordability of services to the community within the context of sustainability.

ORIGINAL 2013/2014 BUDGET:

DESCRIPTION	BUDGET 2013/14	% OF BUDGET
Operating Revenue by GFS Vote		
TOTAL OPERATING REVENUE	216 455 155	100
Operating Expenditure by GFS Vote		
TOTAL OPERATING EXPENDITURE	258 144 980	100
SURPLUS / (DEFICIT) original 2013/14 budget	-41 689 825	

ADJUSTED OPERATING BUDGET 2013/2014:

DESCRIPTION	BUDGET 2013/14	% OF BUDGET
Operating Revenue by GFS Vote		
TOTAL ADJUSTED REVENUE	209 668 915	
Operating Expenditure by GFS Vote		
TOTAL ADJUSTED OPERATING EXPENDITURE	252 139 802	
SURPLUS / (DEFICIT) adjusted 2013/14 budget	-42 470 887	

- 5.2 The deficit of (– R 42 470 887) does include non-cash items for asset depreciation of R25 000 000, R 15 599 170 for Provision for bad debts (Debtor impairment) and R 2 500 000 for interest on long outstanding debtors creating a surplus of (R 400 709) if Internal Capital is added to the Budget.
- 5.3 Departments utilised the month of December 2013 (year-to-date figures) to capture detail adjustment budget proposal. The adjustment budget proposals were analysed during various management (budget) meetings which took place during January 2014.
- 5.4 Departments were given the opportunity to refine their budget proposals in line with the budget principles and availability of revenue.
- 5.5 These sessions did not only focus on expenditure, but revenue generation potential within the context of improved service delivery, operational efficiencies and potential gains

GFS Classifications
Government Finance Statistics

		Total budget per GFS		Total actual per GFS		Percentage per budget per GFS
Revenue - Standard		Votes		2013/2014		
1	Executive & Council	0103/0101/0001/0003	-617,900		-964,151	156.04%
2	Budget & Treasury Office	0230/0203/0005/0201/0205/0251	77,291,437		42,479,368	54.96%
3	Corporate Services	0307/0007/0301/0311/0611/0303	26,231		18,139	69.15%
4	Planning & Development	0059/0053/0503/0051/0501/0505/0055	4,022,744		517,639	12.87%
5	Health	0421	-		-	0.00%
6	Community & Social Services	0403/0401/0421/0441/0443/0061	721,356		185,954	25.78%
7	Housing	0057/0067/0063/0065/0069/0071	1,942,307		157,653	8.12%
8	Public Safety	0433/0431/0437/0603	307,530		90,635	29.47%
9	Sport and Recreation	0411/0405	1,145,186		19,196	1.68%
10	Environmental Protection	Nil	-		-	0.00%
11	Waste Management	0480	10,549,767		4,208,586	39.89%
12	Waste Water Management	0550	14,944,276		2,090,404	13.99%
13	Road Transport	0435/0520/0605	11,918,166		1,209,293	10.15%
14	Water	0543/0540	59,674,365		10,339,358	17.33%
15	Electricity	0601	96,160,611		36,037,029	37.48%
		Total budget	278,086,075	Total actual	96,389,103	
Expenditure - Standard						
1	Executive & Council	0103/0101/0001/0003	-18,560,247		-12,995,001	70.02%
2	Budget & Treasury Office	0230/0203/0005/0201/0205/0251	-70,249,994		-15,046,555	21.42%
3	Corporate Services	0307/0007/0301/0311/0611/0303	-12,101,870		-4,933,736	40.77%
4	Planning & Development	0059/0053/0503/0051/0501/0505/0055	-12,842,587		-3,392,253	26.41%
5	Health	0421	-		-	0.00%
6	Community & Social Services	0403/0401/0421/0441/0443/0061	-5,520,566		-2,585,017	46.83%
7	Housing	0057/0067/0063/0065/0069/0071	-2,120,639		-860,382	40.57%
8	Public Safety	0433/0431/0437/0603	-5,833,167		-2,548,283	43.69%
9	Sport and Recreation	0411/0405	-8,893,009		-4,743,387	53.34%
10	Environmental Protection	Nil	-		-	0.00%
11	Waste Management	0480	-11,312,791		-4,517,433	39.93%
12	Waste Water Management	0550	-12,127,086		-1,814,286	14.96%
13	Road Transport	0435/0520/0605	-25,013,659		-5,579,767	22.31%
14	Water	0543/0540	-37,537,285		-4,928,509	13.13%
15	Electricity	0601	-99,203,215		-33,080,030	33.35%
		Total budget	-321,316,114	Total actual	-97,024,639	
		Surplus / (Deficit)	-43,230,039	Surplus / (Deficit)	-635,536	

1. Government Finance Statistics Functions and Sub-functions are standardised to assist national and international accounts and comparison

6. EXTERNAL FUNDS (GRANTS) - DoRA

- 6.1 With the promulgation of the 2013 Division of Revenue bill in February 2013, the following operational and capital allocations towards the municipality have been factored into the MTREF. (*Bill published in Government Gazette No. 36180 of 22 February 2013*)

DESCRIPTION	BUDGET 2012/13	BUDGET 2013/14	INCREASE/ (DECREASE) %
MIG	27 245 000	28 052 000	3
INEP	10 400 000	18 000 000	73
FMG	1 500 000	1 550 000	3
MSIG	800 000	890 000	11
EPWP Incentive	1 493 000	1 286 000	-14
Equitable Share	45 152 000	52,307,000	16
Water Infrastructure Grant	0	17 196 000	100
World Heritage	0	0	0
TOTAL GRANTS	86 590 000	102 085 000	-3

- 6.2 The table below illustrates how the above grants have been allocated to the various projects in the 2013/14 budget year:

DESCRIPTION	FINAL BUDGET
MUNICIPAL INFRASTRUCTURE GRANT (MIG)	
Replace AC Pipes :Lower part of spearville, lower Dindela and part of CBD Phase 6	7 807 840
Bulk Reticulation Sewer : Verulam	9 000 000
Roads & Stormwater drainage : Ext 13/14 Graveville (Main road) and one street in New Village	9 000 000
Sport Facilities	1 122 080
PMU	1 122 080
WATER INFRASTRUCTURE GRANT	
Bulk & Commercial taps reticulation : Esperado &	6 000 000

Kamashayane	
Suidkaap Water purification and Queens River pump station	6 000 000
Refurbishment and upgrade Lomati Dam Wall (Phase 1)	5 196 000
TOTAL MIG	45 248 000

INTERGRATED NATIONAL ELECTRIFICATION PROGRAMME (INEP)	
Bulk Electricity supply eMjindini Trust (Phase 2)	6 500 000
Sheba Siding electrification (Phase 2) (700 households)	8 000 000
Equitable share (Counter Funding) Sheba siding	2 500 000
eMjindini Trust (300 households)	3 500 000
Equitable Share (Counter Funding) No funds available in budget	Nil
TOTAL INEP	20 500 000
MUNICIPAL SYSTEMS IMPROVEMENT GRANT (MSIG)	
Valuation Roll	300 000
Supply Chain Data Base	240 000
Asset Register	250 000
Development of By-laws	100 000
TOTAL MSIG	890 000

FINANCE MANAGEMENT GRANT (FMG)	
CPMD Training	400 000
Financial Interns	550 000
Review of Annual financial Statements (Case Ware Program and GRAP implementation	300 000
Internal Financial Management Workshops (SEBATA Financial Training/GRAP)	300 000
TOTAL FMG	1 550 000

EQUITABLE SHARE	
Free Basic Services to all residents(Water 6kl)	3 772 392
Subsidy for approved Indigent households	3 632 112
MPRA (Municipal Property Rates Act)	533 896
Operational support for ward committees	540 000
Operational support for Councillors remuneration	1 940 000
Operational Budget support	41 888 600
TOTAL	52 307 000
EPWP INCENTIVE GRANT	
Labour intensive projects	1 286 000
TOTAL	1 286 000

7. CAPITAL BUDGET

- 7.1 The Capital budget per department (Expenditure and funding resource) will be as per the attached adjusted capital budget schedules.
- 7.2 The total adjusted capital budget currently equates to R 69 213 625 million.
- 7.3 Departments have to take into account their capacity and funding to spend the requested budgets against the allocated projects in order to ensure implementation and provision of services delivery.

8. REVENUE FRAMEWORK

- 8.1 In order to serve the community and to render the services needed, revenue generation is fundamental to financial sustainability of every municipality.
- 8.2 The reality is that we are faced with developmental backlogs and poverty, challenging our revenue generation capacity. The requests always exceed the available funds. This was even more obvious when compiling the adjustment budget for 2013/2014.

- 8.3 Municipalities must according to the MFMA (Municipal Finance Management Act ,2003) table a balanced and more credible budget, based on realistic estimation of revenue that is consistent with their budgetary resources and collection experience.
- 8.4 The revenue strategy is a function of key components such as:
- 8.4.1 Growth in town and economic development;
 - 8.4.2 Revenue enhancement;
 - 8.4.3 Achievement of 90% annualized collection rate for consumer revenue;
 - 8.4.4 National Treasury guidelines;
 - 8.4.5 Electricity tariff increases within National Electrification Regulator of South Africa (NERSA) approval;
 - 8.4.6 Approval of full cost recovery of specific department;
 - 8.4.7 Determining tariff escalation rate by establishing/calculating revenue requirement; and
 - 8.4.8 Ensuring ability to extent new services and recovering of costs thereof.
- 8.5 The following table is a high level summary of the Adjusted 2013/2014 MTREF (Classified per main revenue source).
- 8.6 Increase revenue base through providing stands to be sold to middle and high income earners and commercial who can afford to pay for municipal services.

Vote Description Revenue (Income)	Current year budget	Pro Rata July 2013 to December 2013	Actual July 2013 to December 2013	Surplus / (Shortfall): Actual budget vs Actual received	Adjustment Budget 2013/2014
OPERATING REVENUE BY					
Property Rates	23,569,187	11,784,594	5,174,808	-6,609,786	17,709,401
Electricity	46,247,000	23,123,500	20,371,598	-2,751,902	46,247,000
Electricity Pre-Paid	27,247,811	13,623,906	15,040,442	1,416,537	28,664,348
Water	33,931,182	16,965,591	10,260,858	-6,704,733	33,931,182
Sanitation	5,871,096	2,935,548	2,059,650	-875,898	5,871,096
Refuse Removal	10,524,767	5,262,384	4,203,661	-1,058,723	10,524,767
Grants Operational	50,003,000	25,001,500	34,358,000	9,356,500	49,968,000
Interest & Inv Inc	500,000	250,000	51,578	-198,422	301,578
Rent of Facilities	1,479,267	739,634	290,784	-448,850	1,030,417
Interest on O/S Debt	2,500,000	1,250,000	2,138,735	888,735	2,500,000
Traffic Fines	302,000	151,000	80,625	-70,375	231,625
Fines	1,240	620	284	-336	639
Licenses and permits (Agency	2,900,000	1,450,000	1,198,613	-251,387	2,658,613
Other (Miscellaneous)	9,465,836	4,732,918	1,116,289	-3,616,629	8,408,265
Gains on Disposal of Assets	100,000	50,000	438,596	388,596	438,596
Profit on Sale of Inv Prop / Land	1,812,769	906,385	282,582	-623,803	1,183,388
TOTAL OPERATING REVENUE	216,455,155	108,227,578	97,067,103	-11,160,475	209,668,915

9. TARIFF SETTING

- 9.1 Umjindi Municipality derives its revenue from the provision of services such as electricity, water, sanitation and refuse removal. A considerable portion of the revenue is also derived from property rates and grants by national governments as well as other minor charges such as traffic fines.
- 9.2 It is realised that the ability of the community to pay for services rendered is also under tremendous pressure and that the economic outlook for the near future require everybody to make sacrifices.
- 9.3 No additional revenue will be generated through tariff increased as no tariffs have been increased with the compilation of the adjustment budget in terms of section 28(1) of the MFMA (Municipal Finance Management Act, 2003)
- 9.4 The outcome of the increased in tariffs (Revenue) in the original approved 2013/2014 MTREF on different revenue categories remains as follows:

DETAILS	2013/14 PROPOSED TARIFF INCREASE	2013/14 TOTAL BUDGETED REVENUE
Property Rates	New Valuation roll	25 069 187
Electricity	7%	72 494 811
Water	6%	33 931 182
Sanitation	6%	5 871 096
Refuse Removal	Total new tariff structure	10 524 767
Cemetery	10%	190 000
TOTAL		148,081,043

9.6 Equitable Share

9.15.1 The Equitable share allocation to the local sphere of government is an important supplement to existing municipal revenue and takes account of the fiscal capacity, fiscal efficiency, developmental needs, extent of poverty and backlogs in municipalities.

9.15.2 It is an unconditional grant and allocations are contained in the Division of Revenue Act (DoRA).

9.15.3 A municipality should prioritize its budget towards poor households and national priorities such as free basic services and the expanded public works programme.

9.15.4 In terms of the DoRA (Division of Revenue act), the allocation towards Umjindi for 2013/2014 is R52 307 million for the financial year 2013/2014.

(Bill published in Government Gazette No. 36180 of 22 February 2013).

9.15.5 The Equitable Share of Umjindi has expected to increase due to recent census, but this was not meant to be as there was negligible increase in our Equitable Share.

10. EXEPENDITURE FRAMEWORK

10.1 Some of the salient features and best practice methodologies relating to expenditure include the following:

10.1.1 Asset renewal strategy (infrastructure repairs and maintenance a priority)

10.1.2 Balanced budget constraint (expenditure cannot exceed revenue)

10.1.3 Capital programme aligned to asset renewal strategy

10.1.4 Operational gains and efficiencies resulting in additional funding capacity on the capital programme as well as redirection of funding to other critical areas, and

10.2 The following table is a high level summary of the adjusted 2013/14 Medium-Term Expenditure Framework (Classified per main category of expenditure).

Vote Description Expenditure	Current year budget	Pro Rata July 2013 to December 2013	Actual July 2013 to December 2013	Surplus / (Deficit): Actual budget vs Actual expenditure	Adjustment Budget 2013/2014
Employee Remuneration	59,667,581	29,833,791	34,742,683	-4,908,893	65,599,883
Employee : Social Contribution	13,383,036	6,691,518	6,303,086	388,432	12,690,839
Councillors Remuneration	6,199,796	3,099,898	2,915,250	184,648	6,667,264
Depreciation	25,000,000	12,500,000		12,500,000	25,000,000
Repair & Maintenance	8,156,675	4,078,338	633,314	3,445,024	4,720,707
Interest Paid	547,100	273,550	480,084	-206,534	753,634
Bulk Purchases	64,535,000	32,267,500	28,927,822	3,339,678	62,535,000
Contracted Services	12,901,530	6,450,765	5,336,600	1,114,165	11,849,072
Grant&Subsidypaid Operational (Free	7,940,000	3,970,000	2,076,892	1,893,108	7,940,000
Free Basic Services	46,968	23,484	9,000	14,484	31,984
Contribution to Funds & Reserves	18,053,170	9,026,585	2,454,000	6,572,585	2,931,000
Internal Capital	6,608,300	3,304,150	629,083	2,675,067	3,465,625
General Expenses	35,105,824	17,552,912	12,516,825	5,036,087	47,954,794
Expenditure Total	258,144,980	129,072,490	97,024,639	32,047,851	252,139,802
Surplus/(Deficit)	-41,689,825	-20,844,913	42,464	-43,208,326	-42,470,887
NON-CASH ITEMS					
Asset depresiation					25,000,000
Bad Debts					15,371,596
Interest Debtors					-2,500,000
Actual Surplus / (Deficit) on budget					400,709
Orders (Expend commitments) outstanding December 2013			12,130,515		12,130,515

10.3 The total adjusted expenditure for the 2013/2014 year has decreased by 2% or R 6 005 178 against the 2013/14 approved MTREF (budget).

11. CONCLUSION

- 11.1 Although the Municipality in its entirety faces many financial and non-financial challenges, the continued improvement and development of an effective financial planning process aids the actualization of fulfilling its facilitating role to capacitate the community to build a prosperous future for all.
- 11.2 The 2013/2014 adjustment budget contains realistic and credible revenue and expenditure proposals which should provide sound basis for improved financial management and institutional development as well as service delivery improvement and implementation.

12. RECOMMENDATION

- 12.1 That in terms of Section 28 of the Municipal Finance Management Act, (Act 56 of 2003), the adjusted budget of the municipality for the financial year 2013/2014, and the multi-year and single year capital appropriations be approved as set out in the following tables: (Schedule B):
- 12.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A2.
- 12.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3.
- 12.1.3 Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4.
- 12.1.4 Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5.
- 12.2 That the financial position, cash flow, cash-backed reserves/accumulated surplus, asset management and basic service delivery target are adopted as set out in the following tables:
- 12.2.1 Budgeted Financial Position as contained in Table A6.
- 12.2.2 Budgeted Cash Flows as contained in Table A7.
- 12.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in Table A8.
- 12.2.4 Asset Management as contained in Table A9.
- 12.2.5 Basic Service Delivery measurements as contained in Table A10.

- 12.3 That the Service Delivery and Budget Implementation Plans for the adjustment budget be approved and implemented with effect from 1 February 2014.